

Message Text

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SUBJECT: PETROLEUM REVERSION ALTERNATIVES

1. SUMMARY. ALTHOUGH VENEZUELAN GOVERNMENT HAS NOT DECIDED IN WHAT WAY IT WILL IMPLEMENT CONCEPT OF EARLY REVERSION AND WILL NOT DO SO UNTIL IT HAS RECEIVED ADVICE OF SPECIAL COMMISSION CREATED TO STUDY REVERSION, THERE ARE A NUMBER OF IDEAS FLOATING AROUND CARACAS ABOUT POSSIBLE FORMS THAT REVERSION COULD TAKE. THIS MESSAGE ATTEMPTS TO SUMMARIZE SOME OF THE MAJOR ALTERNATIVES OPEN TO VENEZUELAN GOVERNMENT. IT SHOULD BE UNDERSTOOD THAT MANY OF THESE ALTERNATIVES WOULD HAVE A NUMBER OF POSSIBLE VARIANTS. END SUMMARY.

2. GREATEST UNKNOWN AT THIS TIME IS HOW PETROLEUM INDUSTRY IN VENEZUELA WOULD BE ORGANIZED AFTER REVERSION. NEITHER MEP NOR COPEI BILLS ON NATIONALIZATION TOUCH UPON THIS QUESTION. MOST ALTERNATIVES THAT ONE COULD VISUALIZE, HOWEVER, WOULD BE VARIANTS OF ONE OR ANOTHER OF FOUR MAJOR TYPES OF ORGANIZATION: (1) CONSORTIUM OR JOINT VENTURE APPROACH; (2) STATE OIL COMPANY APPROACH; (3) A FEDERATION OF SEVERAL STATE OIL COMPANIES; (4) SERVICE CONTRACT APPROACH.

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3. A CONSORTIUM OR JOINT VENTURE APPROACH WOULD HAVE ADVANTAGE

OF MAKING OIL COMPANIES PARTNERS WITH GOVERNMENT IN ALL PHASES OF INDUSTRY. DIFFICULT PROBLEMS OF OIL PRICING AND TAXATION WOULD BE AVOIDED BECAUSE ALL WOULD SHARE ON FIXED PERCENTAGE BASIS IN ANY GAINS OR LOSSES. SINCE VENEZUELA DOES NOT ESTABLISH OIL PRICES BUT FOLLOWS THOSE SET IN PERSIAN GULF, THIS APPROACH WOULD HAVE AN CERTAIN LOGIC. HOWEVER, IT WOULD LEAVE COMPANIES INVOLVED IN SOME PHASES OF INDUSTRY, SUCH AS PRODUCTION, WHICH GOVERNMENT SEEMS DETERMINED TO TAKE OVER EXCLUSIVELY.

4. CONCEPT OF A FEDERATION OF SEVERAL STATE OIL COMPANIES HAS TWO MAJOR VARIANTS. ONE IS THE SHELL PLAN WHICH WOULD KEEP CREOLE INTACT AS A STATE-OWNED COMPANY AND WOULD DO THE SAME FOR SHELL AND FOR MENE GRANDE AND FOR STATE OIL COMPANY (CVP), AND WOULD COMBINE ALL OTHER PRESENT COMPANIES INTO A FIFTH OIL COMPANY. OTHER VARIANT WOULD INVOLVE REGIONAL "RATIONALIZATION." SEVERAL STATE OIL COMPANIES WOULD BE CREATED, ONE IN EACH PRODUCING REGION WHICH WOULD TAKE OVER ALL OPERATIONS IN THEIR RESPECTIVE REGIONS. UNDER EITHER VARIANT, OIL COMPANIES MIGHT GIVE MANAGEMENT OR OTHER ASSISTANCE UNDER CONTRACT, AND WOULD RECEIVE LONG-TERM CONTRACTS ENABLING THEM TO RECEIVE FOR SALE ABROAD A MAJOR PROTION OF VENEZUELAN OIL PRODUCTION. "REGIONAL RATIONALIZATION PLAN" IS FAVORED BY A NUMBER OF TECHNICAL LEVEL OFFICIALS IN MINISTRY OF MINES AND HYDROCARBONS.

5. STATE OIL COMPANY APPROACH IS, OF COURSE, FAVORED BY CVP WHICH WOULD BECOME A GIGANTIC COMPANY WITH ALL OF VENEZUELA'S 3.2 MILLION BARRELS PER DAY OF OIL PRODUCTION. MANY VENEZUELAN, HOWEVER, ARE NERVOUS ABOUT CREATING SUCH A GIANT COMPANY WHICH THEY FEEL MIGHT PROVE INEFFICIENT, MONOPOLISTIC AND TOO POWERFUL. MINISTRY OFFICIALS TEND TO OPPOSE IDEA FOR THESE REASONS, AND ALSO BECAUSE

THERE WOULD SEEM TO BE LITTLE NEED FOR A MINISTRY OF HYDROCARBONS, WHOSE MAIN TASK IS TO CONTROL OIL COMPLEXES, IF ONE BIG STATE OIL COMPANY EXISTED WHICH PRETENDED TO EMBODY THE NATIONAL INTEREST.

6. THE SERVICE CONTRACT APPROACH DOES NOT SEEM TO HAVE MANY SUPPORTERS. IT HAS BEEN TRIED IN SOUTHERN PART OF LAKE MARACAIBO AND APPARENTLY WORKS WELL ENOUGH BUT DOES NOT HAVE SUFFICIENT AURA OF NEWNESS AND NATIONALIZATION ABOUT IT.

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7. WHATEVER VARIANT IS SELECTED FOR ORGANIZATION OF PETROLEUM INDUSTRY, GOVERNMENT WILL ALSO HAVE TO MAKE BASIC DECISION ABOUT SCOPE OF NATIONALIZATION. THIS WILL INVOLVE RESOLVING TWO CONFLICTING IDEAS WHICH ARE WIDELY HELD HERE. ONE IS THAT GOVERNMENT SHOULD TAKE OVER, OWN AND OPERATE OIL INDUSTRY; AND SECOND IDEA THAT OIL COMPANIES IN FACT PERFORM SOME USEFUL SERVICES THAT COULD CONTINUE TO BE VALUABLE TO VENEZUELA. USEFULNESS OF COMPANIES IS MOST WIDELY RECOGNIZED WITH REFERENCE TO INTERNATIONAL MARKETING WHERE

THEIR EXPERIENCE AND THEIR ROLE AS INTERMEDIARY IS OF VALUE. THUS, INTERNATIONAL MARKETING IS LEAST LIKELY FUNCTION TO BE COMPLETELY TAKEN OVER BY VENEZUELAN GOVERNMENT. MOST LIKELY FUNCTION TO BE TAKEN OVER IS PRODUCTION. VENEZUELAN OFFICIALS ARE ALSO BELIEVED TO WANT TO CONTROL EXPLORATION BUT THEY MIGHT WELL BE SATISFIED WITH FULL PARTICIPATION IN DECISION MAKING ON EXPLORATION RATHER THAN INSISTING ON COMPLETE TAKEOVER. VIEWS ON REFINING ARE NOT WELL FORMULATED AT THIS TIME BUT GOVERNMENT MIGHT WANT TO TAKE OVER THIS ACTIVITY AS WELL. ONE THE OTHER HAND THERE ARE LEGAL PROBLEMS BECAUSE SOME REFINERIES ARE NOT LOCATED ON PETROLEUM CONCESSIONS AND MAY NOT BE SUBJECT TO REVERSION ON SAME TERMS AS CONCESSIONS. PROBABLY, GOVERNMENT WILL DEVELOP SOME FORMULA THAT EMPHASIZES ITS OWNERSHIP AND CONTROL AND MAKES WHATEVER ROLES LEFT TO OIL COMPANIES AS UNOBTRUSIVE AS POSSIBLE.

7. COMPENSATION MIGHT BE A DIFFICULT PROBLEM OR NOT DEPENDING ON WHAT ENTIRE REVERSION PACKAGE LOOKS LIKE. COMPANIES MAY RECEIVE COMPENSTION IN CASH, BASED ON GOVERNMENT'S ESTIMATE OF NET BOOK VALUE (WHICH IS SOMEWHAT LOWER THAN COMPANY'S ESTIMATE OF NET BOOK VALUE, OWING TO UNRECOGNIZED REVALUATIONS OF ASSETS). COMPENSATION MIGHT ALSO TAKE FORM, IN WHOLE OR IN PART, OF NEW LONG-TERM ARRANGEMENTS GUARANTEEING OIL COMPANIES ACCESS TO PORTION OF VENEZUELAN PETROLEUM FOR PERIOD OF YEARS. CLEARLY GAINING SUCH ACCESS TO THE OIL WILL BE MAIN OBJECTIVE OF COMPANIES AND IF THEY ACHEIVE IT THEY WILL BE UNLIKELY TO MAKE GREAT DIFFICULTIES

ABOUT LEVEL OF MONETARY COMPENSATION.

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